

# State of Delaware Cash Management Policy Board

## STATEMENT OF OBJECTIVES AND GUIDELINES FOR THE INVESTMENT OF STATE OF DELAWARE FUNDS

Originally Adopted January 18, 1982 by the State's Cash Management Policy  
Board—Revisions Approved November 3, 1999

## I. Statutory Authorization

- A. The Cash Management Policy Board (hereinafter the "Board") was created by 63 Del. Laws, c. 142, to establish policies (a) for the investment of all money belonging to the State or on deposit from its political subdivisions, except money deposited in any State Pension Fund or the State Deferred Compensation Program, and (b) to determine the terms, conditions, and other matters relating to those investments including the designation of permissible investments. (29 Del. C. §2716(a)).
- B. The objectives and guidelines, as outlined herein, apply to all cash and special purpose funds for which the State is financially accountable (the "State's Fund"). These funds are categorized as outlined below.
  1. Cash Accounts. The State's available cash divided into three parts:
    - ◆ Collection and Disbursement Accounts: The State maintains an amount of cash in its General Collection and Disbursement Accounts sufficient to meet its outstanding obligations.
    - ◆ Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts will be managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State will manage its short-term (12- to 18-month) investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.
    - ◆ Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board will direct the funding of a third part. This fund shall be managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State will manage its intermediate investments to ensure they are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.
  2. Special Purpose Accounts. There are two primary types of Special Purpose accounts:
    - ◆ Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.
    - ◆ Authority Accounts: The State's Authorities maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.
- C. As mandated by 29 Del. C. §2716, the State's funds shall be invested pursuant to the prudent person standard under the guidelines set forth below. The Board will review regularly its investment policies and strategies in light of the State's experience as well as economic and financial conditions. Any modifications to these guidelines shall be promptly communicated in writing to the investment managers acting pursuant thereto. The Board will consider special exceptions to these guidelines on a case-by-case basis. To the extent certain funds are subject to additional restrictions, the most limiting of the guidelines will apply to those funds.

D. Appendix A hereto lists the accounts within the State's Fund and the investment managers currently responsible for them.

## **II. Investment Objectives and Maturity Restrictions**

- A. Each of the accounts within the State's Fund shall be invested consistent with the primary objective for the account and the following general guidelines:
- ◆ Where appropriate, the manager shall maintain a pool of liquid funds that is considered sufficient to meet the uncertainty of cash demands.
  - ◆ The remainder of the assets will be managed to produce the highest return available, consistent with liquidity and quality constraints, given the investment manager's outlook for interest rates and the economic environment.
  - ◆ In the event that an investment manager purchases any security that violates the guidelines at the time of purchase, the Board expects the investment manager to remove the security from the State's portfolio as soon as possible. The Board will not require the investment manager to sell such securities at a loss. The investment manager will, however, absorb any investment losses or extraordinary costs associated with the purchase and sale of the security.
- B. The objectives and maturity restrictions for each of the investable account types are outlined below.
1. Cash Account Investment Objectives:
    - ◆ The funds in the Cash Account must be available to support State governmental programs and activities. Since the amount of assets available for investment will fluctuate, the investment program adopted must allow the State to meet both anticipated and unanticipated cash demands. The primary objective of this account is, therefore, to be invested so as to provide sufficient liquidity to meet the State's needs for funds as they arise. (In this respect, liquidity is defined as the ability to realize, when required, the amount originally invested).
    - ◆ In order to facilitate the management of the Cash Account, each week the Cash Management Unit of the State Treasurer's Office will provide its best estimate of revenue receipts and expected expenditures to the investment manager for the succeeding one, two, three, and four-week periods. The investment manager shall recognize that it must allow for daily variations in cash demands by maintaining a portion of the account in overnight investments.
    - ◆ Maturity Restrictions: The maximum maturity for any investment at the time of purchase for the Cash Account shall be one year.
  2. Liquidity Accounts
    - ◆ Investment Objectives: The primary investment objectives of the Liquidity Accounts are to maximize yield and to maintain safety of principal. In the event a cash withdrawal is necessary, the investment manager will be given as much advance notification as possible.
    - ◆ Maturity Restrictions: The maximum maturity for any investment at the time of

purchase shall be two years for the Liquidity Accounts.

3. Reserve Cash (Intermediate) Account

- ◆ Investment Objectives: The Reserve Cash Account has been established to provide funding over an intermediate horizon. The primary investment objectives, therefore, are to maximize yield and maintain safety of principal during the investment period.

4. Endowment Accounts

- ◆ Investment Objectives: Endowment accounts are established to provide a long-term funding source. The primary investment objectives are to maximize yield and maintain safety of principal.
- ◆ Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be ten years. The maximum average maturity of the portfolio shall be seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.

5. Authority Operating, Bond and Debt Service Reserve Fund Accounts

- ◆ Investment Objectives: State Authorities maintain various operating, bond and debt reserve funds, the investment of which are governed by statutes, bond trust agreements or Federal guidelines. The investment objectives of the operating, bond and debt service reserve funds include maximizing yield and maintaining the safety of principal. (Current tax law requires that aggregate earnings in excess of the bond yield on bond and debt service reserve funds, however, must be rebated to the Federal government).
- ◆ Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be ten years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

### III. Investment Restrictions

A. The Board has adopted the following restrictions and policies relating to the investment of its assets. The policies are fundamental and may not be changed without written approval of the Board.

B. The investment manager may not:

1. Purchase any securities other than money market and other securities described under Section IV, "Permissible Investments", subject to the percentage of account limitations as defined in Section V hereof;
2. Make investments for the purpose of exercising control or management of an issuer;
3. Purchase or sell real estate (other than money market securities secured by real estate or money market securities issued by companies which invest in real estate, or interests therein), commodities or commodity contracts, interests in oil, gas or other mineral exploration or development programs;

4. Purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities;
5. Make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof;
6. Make loans to other persons, provided that the investment manager may purchase money market securities or enter into repurchase agreements;
7. Mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held;
8. Invest in securities (except for repurchase agreements or variable rate master demand notes) with legal or contractual restrictions on resale or for which no readily available market exists;
9. Act as an underwriter of securities; or
10. Buy or sell any authorized investment when it is a party or any related or affiliated party in the transaction on both sides, except that it may enter into a repurchase agreement with itself when the maturity does not exceed one business day and the amount does not exceed \$500,000.

#### IV. Permissible Investments

The following investments are permissible for all funds under the review of the Cash Management Policy Board, subject to the percentage limitations summarized in Section V hereof.

- A. United States Government Securities. Marketable securities issued by the U.S. government and supported by the full faith and credit of the U.S. Treasury either by statute or an opinion of the attorney general of the United States.
- B. Government Agency Securities. Debt securities issued by government-sponsored enterprises, federal agencies, Federal financing banks, and international institutions part of whose capital stock has been subscribed for by the United States.
- C. Certificates of Deposit, Time Deposits, and Bankers Acceptances.
  1. Domestic Institutions: Issued or endorsed by a domestic bank, or a savings and loan association, organized and supervised under Federal or any state laws, or any of its branches located in the United Kingdom, the Bahamas, or the Cayman Islands and denominated in U.S. dollars; provided, however, that:
    - ◆ The banking institution has assets of not less than \$5 billion; and
    - ◆ The banking institution is rated not lower than "B" by Thomson's BankWatch Service.
  2. Non-Domestic Institutions: Issued or endorsed by a non-domestic bank organized and supervised under the laws of Japan, Canada, United Kingdom, Holland, Germany, France, or Switzerland and denominated in U.S. dollars, provided, however, that:
    - ◆ The banking institution has assets of not less than \$5 billion; and
    - ◆ The banking institution has a Thomson's BankWatch Service "Peer Group Rating" not lower than II.
  3. Delaware-Domiciled Institutions: The Cash Account, and only the Cash Account, may also

be invested in Certificates of Deposit, Time Deposits, and Bankers Acceptances issued by or endorsed by any bank or savings association domiciled in the State of Delaware and organized and supervised under Federal or State of Delaware banking laws which does not meet the requirements of IV-C-1 above; provided, however, that:

- ◆ For each of the latest two years, the bank or association has had a return on total average assets of 0.5% or greater and an average capital ratio (defined as total equity capital to total assets) of at least 1 to 20, or the instrument is secured as set forth in paragraph IV-E below; and
  - ◆ Not more than the lesser of \$10 million or 25% of an issuer's total equity capital, may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)
  - ◆ The Board expressly affirms that, consistent with these guidelines, Delaware banks and savings associations should be considered as a source of investment.
- D. Corporate Debt Instruments. Such instruments include commercial paper, variable rate master demand notes, and non-convertible debt securities (bonds and debentures); provided, however, that:
1. Any such instrument must be issued by a U.S. corporation or a non-domestic corporation subject to the laws of Japan, Canada, United Kingdom, Holland, Germany, France, or Switzerland and denominated in U.S. dollars; and
  2. Commercial paper investments at the time of purchase must be rated "A-1" by Standard & Poor's ("S&P") and/or "P-1" by Moody's Investors Service ("Moody's"), and the senior long-term debt of the issuer must be rated not lower than "A" by S&P and/or "A" by Moody's. Investments in corporate bonds and debentures must be rated at the time of purchase at least "AA" by S&P and/or "Aa" by Moody's.
  3. Any such instrument may be backed fully by an irrevocable, unconditional letter of credit issued by a bank which meets the requirements of paragraph C-1 or C-2 above. The security will count as a holding of the letter of credit provider for purposes of applying the percentage limitations outlined in Section V hereto.
- E. Repurchase Agreements. The underlying securities shall consist of U.S. government or government agency securities, certificates of deposit, commercial paper or bankers acceptances; provided, however, that:
1. All repurchase transactions must be governed by written repurchase agreements;
  2. Agreements will be entered into only with respect to underlying securities in which the investment manager may otherwise invest as described above, and only with a recognized U.S. Government/broker or a bank which meets the requirements set out under paragraph IV-C above;
  3. In the case of repurchase collateral held in book-entry form in the Federal Reserve System, all deliveries of securities must be made, for the transfer thereof, through the Federal Reserve book-entry system to the account designated by the investment manager for such purpose. Securities held in certificated form must be delivered to the investment manager or a custodian as directed by the investment manager; and
  4. Any collateral employed under this paragraph shall be counted towards the applicable maximum limits set forth within these guidelines for such type of investment, and such collateral shall be valued at market at not less than 102 percent of the maturity value of the agreement

and marked-to-the-market as requested by the investment manager.

- F. Reverse Repurchase Agreements. The investment manager may enter into reverse repurchase agreements which involve the sale of money market securities held by the State, with an agreement to repurchase the securities at an agreed upon price, date and interest payment, so long as:
  - 1. The agreement is entered into only with a recognized U.S. government broker/dealer or a bank which meets the requirements set out under Section IV-C above who is acting as a principal to the agreement;
  - 2. The State's securities are sold at not less than 98% of their fair market value including all accrued interest; and
  - 3. The investment manager marks-to-market as appropriate.
- G. Money Market Funds. The money market fund(s) selected by the investment manager shall be consistent with the investment quality guidelines as stated in this document.
- H. Canadian Treasury Bills. Marketable securities issued by the government of Canada, which are fully hedged against fluctuations in foreign exchange markets.
- I. Canadian Agency Securities. Debt securities issued by the Export Development Corporation, a Federal Crown Corporation and an agent of Her Majesty in Right of Canada. These securities are issued as U.S. dollar denominated commercial paper having a maximum maturity of 270 days.
- J. Mortgage-Backed Securities. Only the Cash Reserve (Intermediate) Account may invest in Mortgage-Backed Securities. The portfolio may have a total investment of no more than 20 percent, valued at market, in AAA-rated Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC) mortgage-backed securities in the form of pass-throughs.

**Additional Permissible Investments for Special Purpose Accounts Only:**

- K. Municipal Obligations. Taxable and tax-exempt securities issued by state and local governments and public authorities in the U.S.
- L. Guaranteed Investment Contracts. From time to time, a situation arises whereby it is prudent to match a specific investment instrument with a known specific future liability. Guaranteed investment contracts, subject to the credit quality guidelines outlined in paragraph IV-D-2 above and with adequate exit provisions in the event of the future downgrade of the issuer, are permitted to be purchased in these circumstances.

**V. Percentage of Account Limitations**

The purchase of the securities outlined in Section IV cannot exceed the following percentage limits of the Account, valued at market. Investments due to mature in one business day may be excluded from the computation of said percentages.

- A. U.S. Government. No Restrictions

- B. Government Agency. 50% total, 20% in any one agency
- C. CDs, Time Deposits and Bankers Acceptances. 50% total, 10% in any one issuer
  - 1. Domestic. No additional restrictions
  - 2. Non-Domestic. 25%
  - 3. Delaware. Domiciled See IV-C-3-b hereof
- D. Corporate Debt. 50% total, 25% in any one industry, 10% in any one issuer, 10% of any issuer's total outstanding securities.
  - 1. Domestic. No additional restrictions
  - 2. Non-Domestic. 25%, 10% in any one issuer
- E. Repurchase Agreements. 50% total
- F. Reverse Repurchase Agreements. 25% total
- G. Money Market Funds. 25% total, 10% in any one fund
- H. Canadian Treasuries. 25% total, 10% in any one agency
- I. Canadian Agency Securities. 25% total, 10% in any one agency
- J. Municipal Obligations 10% in any one issuer
- K. Guaranteed Investment Contracts. See Section IV-K above

#### VI. Account Reviews

The investment manager(s) shall meet with the Board periodically to review the investment outlook, structure of the accounts, and historic results. A general agenda for these meetings shall include but not be limited to:

- A. A review of the investment results achieved over the prior quarter and year in relation to the account restrictions and the investment manager's investment views and internal policies in effect prior to, and during the period;
- B. The investment manager's current outlook for the financial markets during the next six to twelve months;
- C. The investment manager's internal investment policies that have been adopted in response to these expectations;
- D. The appropriateness of the present portfolio given the expectations, internal investment policies and the State's requirements; and
- E. A review of the guidelines relative to any constraint that the investment manager feels limits his/her ability to respond to market developments in a manner consistent with the investment objectives.



## APPENDIX A

The names of the various State Funds and their respective investment managers are listed below.

### Current Title of Account Investment Manager

#### Cash Accounts:

1. Collection and Disbursement Accounts
  - ◆ General Collection — Mellon Bank
  - ◆ General Disbursement — PNC Bank
2. Cash Account
  - ◆ Morgan Guaranty Trust Co. (J.P. Morgan Investments)
3. Liquidity Accounts
  - ◆ Morgan Guaranty Trust Co. (J.P. Morgan Investments)
  - ◆ First Union National Bank (First Capital Group)
  - ◆ Wilmington Trust Company
4. Reserve Cash Account
  - ◆ Morgan Grenfell
5. Special Purpose Accounts
  - ◆ Endowment Accounts — Morgan Grenfell
  - ◆ Authority Accounts
    - Operating Accounts — Wilmington Trust Co.
    - Bond Accounts — Wilmington Trust Co.
    - Debt Service
  - ◆ Reserve Funds
    - Wilmington Trust Company
    - State Street Bank

*As of March 18, 1999*